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E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: CAPACITY UTILIZATION IN THE FRG

1. SUMMARY. THE ONLY MEASURES OF CAPACITY UTILIZATION IN THE FRG ARE PRODUCED BY THE IFO AND DIW (BERLIN) ECONOMIC RESEARCH INSTITUTES. THE FORMER IS BASED ON A SURVEY AND IS THE MOST CURRENT; IN APRIL IT REFLECTED A 82.2 PERCENT RATE OF UTILIZATION--UP 6 PERCENT FROM A YEAR AGO, AND ABOUT 9 PERCENT BELOW THE PREVIOUS MAXIMUM. DIW'S APPROACH

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IS BASED ON A MACROECONOMIC CALCULATION THAT FOR THE

FIRST QUARTER REGISTERED 83.3 PERCENT UTILIZATION OF INDUSTRIAL CAPACITY, SUGGESTING UP TO 10 PERCENT SPARE CAPACITY REMAINS. THIS SERIES (DESCRIBED IN PARA 2B BELOW) IS PROBABLY THE BEST, ESPECIALLY SINCE IT CONTAINS A FORECAST TO THE END OF THE YEAR WHEN AN 89 PERCENT UTILIZATION RATE IS PREDICTED. BOTH DIW AND IFO ARE CONCERNED THAT CAPACITY LIMITS WILL BE APPROACHED IN THE SHORT-TERM FUTURE, ALTHOUGH AT PRESENT THERE IS NO IMMEDIATE PROBLEM. END SUMMARY.

2. CAPACITY UTILIZATION PER DIW.

A. IN AN ARTICLE ENTITLED "UPTURN WITHOUT CAPACITY SQUEEZE" THE BERLIN INSTITUTE (DIW) MADE AN ESTIMATE OF CAPACITY UTILIZATION (WOCHENBERICHT 28/76 PUBLISHED JULY 15, 1976) WHICH WAS BASED ON ITS OWN MACROECONOMIC ESTIMATIONS OF THE PRODUCTION POTENTIAL OF THE PRIVATE SECTOR (EXCLUDING RENTAL PROPERTY AND GOVERNMENT, BUT INCLUDING SERVICES AND RETAIL TRADE) AS COMPARED WITH ACTUAL PRODUCTION. ON AN ANNUAL BASIS, THEIR CALCULATIONS FOR THE PERIOD 1970 TO 1975, WITH A FORECAST FOR 1976, YIELDED THE FOLLOWING RESULTS:

CAPACITY UTILIZATION OF PRODUCTION POTENTIAL	
YEAR	(PERCENT)
1970	90.8
1971	89.0
1972	88.1
1973	89.2
1974	86.1
1975	80.4
1976	84.0

NO SECTORAL BREAKOUT WAS GIVEN IN THIS PARTICULAR STUDY. IT WAS OBSERVED THAT WITH A FORECASTED PRODUCTION INCREASE OF 6.5 PERCENT IN 1976, CAPACITY UTILIZATION WILL BE IMPROVED BUT AT 84 PERCENT IT WILL STILL LIE SOME SIX PERCENTAGE POINTS UNDER THE "NORMAL" CAPACITY LIMITED OFFICIAL USE

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UTILIZATION LEVEL. THIS FINDING DIFFERS SOMEWHAT IN
TONE FROM TWO OTHER DIW STUDIES DESCRIBED BELOW.

B. IN ANOTHER PAPER (WOCHENBERICHT 24/76 PUBLISHED
JUNE 16, 1976) THE DIW PRESENTED THE FOLLOWING SECTORAL
CAPACITY UTILIZATION CALCULATIONS FOR THE "MANUFACTURING
INDUSTRY" ON A SEASONALLY ADJUSTED AND QUARTERLY BASIS,
THE LAST THREE QUARTERS OF 1976 BEING, OF COURSE,
FORECASTED FIGURES:

INDUSTRIAL CAPACITY UTILIZATION PER DIW
(PERCENT)

QUARTR 1970 1971 1972 1973 1974 1975 1976 1/

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	TOTAL	MANUFACTURING INDUSTRY						
I	93.6	90.3	87.1	91.5	90.4	80.9	83.3	
II	92.9	89.1	87.6	91.7	90.4	78.7	84.7	
III	92.0	88.8	88.4	91.8	87.8	79.9	86.5	
IV	91.4	86.3	91.5	91.4	83.5	82.3	88.9	
	BASIC AND PRODUCER GOODS INDUSTRIES							
I	95.4	90.6	86.6	92.3	92.4	77.8	80.3	
II	94.7	89.0	87.1	92.6	92.8	73.5	81.3	
III	93.7	88.0	88.4	92.7	89.7	73.5	83.3	
IV	91.3	86.6	91.4	92.6	83.5	77.8	85.1	
	CAPITAL GOODS INDUSTRIES							
I	95.0	90.7	85.3	90.5	89.8	80.7	83.9	
II	93.8	89.3	86.0	91.1	89.3	80.1	85.2	
III	92.7	88.5	87.0	91.4	86.9	81.5	87.0	
IV	93.4	83.3	90.7	91.8	82.4	82.7	90.7	
	CONSUMER GOODS INDUSTRIES							
I	91.4	89.7	91.5	94.7	89.3	82.5	85.3	
II	90.5	90.0	91.4	93.4	-0	79.9	87.1	
III	90.5	90.3	92.5	92.5	86.6	83.0	89.1	
IV	89.8	90.3	95.4	90.3	83.7	85.4	91.2	
	FOODSTUFFS, BEVERAGES AND TOCACCO INDUSTRIES							
I	86.8	88.7	88.1	88.0	88.8	87.5	87.0	
II	88.6	87.4	88.1	88.6	88.7	86.1	88.7	
III	87.1	89.7	86.4	89.6	87.9	87.2	89.3	
IV	87.0	89.7	87.9	88.6	87.2	88.4	89.9	

1/ SECOND, THIRD AND FOURTH QUARTERS 1976 ARE AS
FORECASTED BY DIW.

C. THE 83.3 PERCENT FIRST QUARTER 1976
UTILIZATION COEFFICIENT IN THE FOREGOING TABLE IS
NOT FAR FROM THE APRIL 1976 82.2 PERCENT FIGURE OF
IFO DESCRIBED IN PARAGRAPH 3. IT REPRESENTS AN
APPROXIMATE 5 PERCENT INCREASE IN CAPACITY UTILIZATION
SINCE THE CYCLICAL LOW POINT IN THE SECOND QUARTER
OF 1974. IN 1970 THE MAXIMUM RATE OF UTILIZATION IN
THIS SERIES WAS REACHED AT A FIGURE OF 93.6 PERCENT.
ACCEPTING THIS AS THE MAXIMUM PRACTICAL LIMIT,
ANOTHER 10 PERCENT CAPACITY REMAINS. HOWEVER, DIW
COMMENTS THAT IN THE FOURTH QUARTER, INDUSTRIAL CAPACITY
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AT A FORECASTED 89 PERCENT WILL BE VERY NEAR FULL
UTILIZATION. THE DIFFERENCE IN THE FINDINGS OF THIS
DIW STUDY AND THE ONE DESCRIBED IN PARAGRAPH 2-A IS
ATTRIBUTABLE TO THE FACT THAT THE "PRODUCTION POTENTIAL"
CONCEPT USED THEREIN IS MUCH BROADER AND SUBSUMES THE
"MANUFACTURING INDUSTRY" OF PARAGRAPH 2B. THE
"MANUFACTURING INDUSTRY" ACCOUNTS FOR ABOUT ONE-HALF

OF "PRODUCTION POTENTIAL." THE CALCULATION, THOUGH,
IS MADE IN THE SAME MANNER, I.E., COMPARISON OF DIW'S

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MACROECONOMIC ESTIMATE OF PRODUCTION POTENTIAL WITH
ACTUAL PRODUCTION, TAKING INTO ACCOUNT INVESTMENT AND
SCRAPPING. THE CAPITAL GOODS SECTOR, WHICH IS
FORECAST TO HAVE A 90.7 PERCENT UTILIZATION RATE IN
THE FOURTH QUARTER, IS DECEPTIVE, OUR DIW CONTACT TOLD
US. THIS IS BECAUSE IT AGGREGATES MANY SUBSECTORS
WITH WIDELY VARYING UTILIZATION RATES. MACHINERY
MANUFACTURERS, FOR EXAMPLE, CURRENTLY HAVE
A VERY LOW RATE OF "UNDER 80 PERCENT" DIW TOLD US.

AUTOMOBILE MANUFACTURERS, ON THE OTHER HAND, ARE VERY NEAR CAPACITY LIMITS AT 95 PERCENT. DIW POINTED OUT TO US THAT IN THIS CAPITAL GOODS SERIES, A 95 PERCENT UTILIZATION RATE HAD BEEN REACHED IN THE PAST (1970), LIMITED OFFICIAL USE

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SO THAT EVEN AT YEAR'S END 4.3 PERCENT CAPACITY WOULD REMAIN TO BE UTILIZED.

D. IT SHOULD BE NOTED THAT DIW IN STILL ANOTHER ARTICLE (WOCHENBERICHT 18/76 PUBLISHED MAY 6, 1976) ON CAPACITY UTILIZATION CAME UP WITH A BROAD SECTORAL BREAKOUT IDENTICAL TO THAT IN PARA 2B, BUT THE NUMBERS VARIED FOR THE HISTORICAL DATA, E.G., 1975 UTILIZATION FOR THE TOTAL MANUFACTURING INDUSTRY IN THIS CASE WAS INDICATED AS BEING 82.5 PERCENT AS COMPARED TO THE 80.2 PERCENT FIGURE IN THE JUNE 16 ARTICLE. THE EXPLANATION FOR THE DIFFERENCE GIVEN US BY DIW WAS THAT THE ANNUAL DATA (PRESENTED BELOW) IS THE RESULT OF A MORE PROFOUND ANALYSIS, AND INDEED GOES INTO FAR GREATER SECTORAL DETAIL, WHEREAS THE QUARTERLY DATA (PARA 2B ABOVE) DOES NOT DISAGGREGATE BEYOND WHAT IS SHOWN. HOWEVER, WHILE ALL THE FIGURES IN THE ANNUAL STUDY RUN 2 TO 3 PERCENTAGE POINTS HIGHER, THE DISTANCE FROM "NORMAL" CAPACITY UTILIZATION (WHICH IS ALSO HIGHER BY THE SAME MARGIN) IS MORE OR LESS CONSISTENT IN BOTH STUDIES. WHILE THE DATA IN THE ANNUAL PRESENTATION IS NO MORE CURRENT THAN LAST YEAR, IT IS CONSIDERED INTERESTING BECAUSE OF THE SECTORAL DETAIL IT CONTAINS. THE NARRATIVE IN THIS ARTICLE STRESSES THE NEED FOR STRONG AND ACCELERATED INVESTMENT AT THE VERY LATEST IN 1977 IF CAPACITY UTILIZATION LIMITS ARE NOT TO BE REACHED AND THEREBY RESTRICT GROWTH. THE TABLE WITH THE 1975 ANNUAL DATA CALCULATED BY DIW FOLLOWS, ALONG WITH SELECTED EARLIER YEARS OF HIGH CAPACITY UTILIZATION INCLUDED FOR AN INDICATION OF MAXIMUM PRACTICAL LIMITS AND BY IMPLICATION THE REMAINING SPARE CAPACITY.

INDUSTRY CAPACITY UTILIZATION

ANNUAL RATES BY SECTOR

INDUSTRIAL GROUPS	1960	1970	1973	1975
MINING	81.2	94.3	94.7	92.3
COAL	80.9	94.5	94.5	98.8
IRON-ORE	98.1	69.9	86.2	68.7
POTASH AND SALT	93.6	97.5	94.4	82.4
MINERAL OIL AND NATURAL				

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GAS PRODUCTION 82.2 95.1 96.1 73.0
OTHER MINING 59.7 89.0 94.8 85.4

MANUFACTURING INDUSTRY 94.7 95.2 94.7 82.1

PRIMARY (BASIC) MATERIAL AND

PRODUCTION GOODS 92.6 93.6 92.8 74.9

STONE AND EARTH 95.5 91.6 93.9 78.0

IRON AND STEEL 90.7 91.9 92.6 78.4

PRODUCTION OF IRON 90.4 89.4 92.3 77.6

IRON, STEEL AND MALLEABLE-

IRON FOUNDRIES 91.0 100.0 91.9 88.0

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STEEL DRAWING WORKS AND

COLD ROLLING MILLS 91.4 95.0 94.7 72.3
 NON-FERROUS 100.0 92.3 86.4 69.6
 CHEMICAL 98.7 95.8 96.1 74.8
 PETROLEUM PROCESSING 80.5 95.4 87.0 67.5
 RUBBER AND ASBESTOS
 PROCESSING 99.6 100.0 87.7 75.3
 SAW MILLS AND WOOD PRO-
 CESSING 79.1 80.4 87.6 78.1
 PULP AND PAPER 87.7 88.5 95.8 82.3

INVESTMENT GOODS INDUSTRIES 96.2 97.7 95.8 83.7

STEEL CONSTRUCTION 89.0 92.0 100.0 90.6

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MACHINERY 96.8 #,00.0 92.5 84.2
 OFFICE MACHINERY, ELEC-
 TRONIC DATA PROCESSING 90.4 100.0 83.0 57.9
 AUTOMOBILE CONSTRUCTION 100.0 96.3 94.0 81.9
 SHIPBUILDING 80.9 91.0 90.5 100.0
 AIRCRAFT CONSTRUCTION 46.6 79.2 93.1 80.9
 ELECTRO-TECHNICAL 99.4 98.3 100.0 84.0
 FINE MECHANICS AND OPTICAL
 INDUSTRY 85.4 98.9 87.7 75.3
 OTHER 98.2 98.7 100.0 88.2

CONSUMER GOODS INDUSTRIES 93.9 92.3 94.9 84.3

FINE CERAMICS 86.5 91.6 93.6 82.7
 GLASS 99.1 93.7 100.0 88.5
 WOOD PROCESSING 92.1 91.7 100.0 84.3
 MUSIC INSTRUMENTS AND
 TOYS 98.9 89.8 83.0 77.3
 PAPER AND CARDBOARD 93.3 90.7 96.1 85.3
 PRINTING AND COPYING 93.0 96.8 95.4 85.1
 PLASTICS 99.6 93.6 100.0 78.6
 LEATHER 92.5 91.1 78.8 74.7
 LEATHER PRODUCING 88.4 79.4 65.6 70.8
 LEATHER PROCESSING 95.3 97.9 85.0 82.2
 SHOE INDUSTRY 92.9 91.9 80.1 71.9
 TEXTILE INDUSTRY 97.8 90.3 92.4 84.5
 MANUFACTURING OF
 CLOTHING 89.6 92.0 95.0 93.5
 FOODSTUFF, BEVERAGES AND
 TOBACCO 95.9 95.0 96.4 94.5
 MILLS 98.3 92.0 99.8 99.4
 OIL MILLS AND MARGARINE 79.6 80.2 86.2 93.6
 SUGAR INDUSTRY 84.0 78.1 86.2 89.8

BREWERIES AND MALTHOUSES	95.8	92.5	91.8	91.7
OTHER FOODSTUFF, BEVERAGES				
AND TOBACCO	97.9	97.4	98.6	95.4
TOTAL	93.7	95.1	94.7	82.4

3. CAPACITY UTILIZATION PER IFO

A. MUNICH'S IFO INSTITUTE ALSO PUBLISHES A
CAPACITY UTILIZATION MEASURE, BUT IT IS ONE BASED ON
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A SURVEY OF SAMPLE FIRMS IN VARIOUS INDUSTRIES RATHER
THAN THE MORE DETAILED, EXTENSIVE AND PRECISE MACRO-
ECONOMIC DIW MEASURE. THE SEASONALLY ADJUSTED
AGGREGATE UTILIZATION FIGURE IN APRIL WAS 82.2 PERCENT,
WHICH WAS 2 PERCENT HIGHER THAN IN JANUARY, AND 6
PERCENT HIGHER THAN IN APRIL OF LAST YEAR. THE
AVERAGE CAPACITY UTILIZATION FIGURE IN THIS SERIES
IS AROUND 87 PERCENT; IN 1970 IT REACHED 91 PERCENT--
A HIGH POINT. THE SPARE CAPACITY REMAINING AS OF
APRIL THEREFORE WOULD BE ABOUT 9 PERCENT. IN THE
APRIL SURVEY, THE CAPITAL GOODS (INVESTITIONSGUETER-
BEREICH) SUB-CATEGORY UTILIZATION LEVEL WAS MEASURED
AS BEING 81.7 PERCENT, OR 2 PERCENT HIGHER THAN
JANUARY. THE "ELEKTROINDUSTRIE" SUB-SUB-CATEGORY
WAS HIGHLIGHTED AS BEING WORSE THAN MOST WITH 74.7
PERCENT UTILIZATION. BUSINESS AND OFFICE MACHINES

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WERE ON THE HIGH SIDE WITH A 85.5 PERCENT FIGURE. NO
FURTHER BREAKOUT WAS PROVIDED BY IFO.

B. ABOUT A THIRD OF THE RESPONDENT FIRMS IN
AIL 1976 CONSIDERED THEIR EXISTING CAPACITY MORE
THAN SUFFICIENT TO TAKE CARE OF EXPECTED DEMAND OVER
THE NEXT 12 MONTHS. ONLY 3 PERCENT THOUGHT THAT THEIR
CAPACITY WAS INSUFFICIENT IN THIS REGARD. THIS
ESTIMATE OF THE EXISTING CAPACITY AND SALES HAS HAD
A DAMPENING EFFECT ON INVESTMENT PROPENSITY,
COMMENTED IFO.

C. IN A SEPARATE SURVEY OF INVESTMENT PLANS,
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IFO DETERMINED THAT THE PRODUCTION CAPACITY OF INDUSTRY
WILL BE EXPANDED BY ONLY 3 PERCENT IN 1976, THE SAME
AS IN 1975, AND 1 PERCENT LESS THAN WHAT IT WAS IN
1974. IN THE PREVIOUS 20 YEARS IT NEVER DROPPED BELOW
THE 5 PERCENT RATE OF EXPANSION. IFO READS INTO THE
FLATTENING OUT OF PRODUCTION POTENTIAL GROWTH THE
PROBABILITY THAT INDUSTRIAL EMPLOYMENT WILL NOT BE
GENERATED BUT RATHER WILL DECREASE IN THE FUTURE, AS
IT HAS IN RECENT YEARS. THE FLATTENING OF CAPACITY
GROWTH, IFO OBSERVES, IS GENERALIZED ACROSS ALL SECTORS.
IN SOME SECTORS THE INVESTMENT RATE IS SO LOW THAT
CAPACITY IS ACTUALLY SHRINKING, E.G., STONE AND EARTH,
CLOTHING, SHOES, AND BUSINESS AND DATA PROCESSING
MACHINES.
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